

# Request for City Council Action

Date: October 17, 2002

To: Council Member Lisa Goodman, Community Development Committee  
Commissioner Lisa Goodman, MCDA Operating Committee

Prepared by: Donna Wiemann, Senior Project Coordinator, Phone 612-673-5257

Approved by: Chuck Lutz, Interim MCDA Executive Director \_\_\_\_\_

**SUBJECT: 1900 Central Avenue Project: A Public Hearing to Approve the Issuance of up to \$5,900,000 of 501 (c)(3) Multifamily Revenue Bonds to Finance the Project and A Public Hearing to Approve the Hennepin County Housing and Redevelopment Authority Exercising its Powers with Respect to the Project**

**Previous Directives:** In 1997, the Board authorized the issuance of a joint RFP with Hennepin County for development proposals. Three proposals were received; the community and MCDA staff preferred the proposal by Summit Environmental to rehab the existing structure for their company headquarters, however, it was ultimately withdrawn due to costs and time constraints. In early 2000, the Board gave exclusive development rights to Silver Creek Development to build a 100 unit apartment building with some commercial space and underground parking. The developer was unable to close the financing gap and withdrew the proposal early in 2001.

In April, 2002, the City Council approved up to \$624,000 of NRP Affordable Housing Reserve funds for the Volunteers of America of Minnesota's proposed senior housing project at 1900 Central Avenue. On August 23, 2002, the Board authorized staff to initiate the project analysis process for the Volunteers of America of Minnesota proposed 1900 Central Avenue project; to negotiate terms and conditions of a redevelopment contract; to grant exclusive development rights for six months; and to prepare a redevelopment plan and tax increment financing plan for the project.

**Ward:** Third Ward.

**Neighborhood Group Notification:** The Holland Neighborhood Improvement Association (HNIA) has reviewed the development proposal on several occasions and on July 11, 2001, HNIA, on behalf of Volunteers of America of Minnesota, submitted a request for \$624,000 of NRP Affordable Housing Reserve funds.

**Consistency with *Building a City That Works*:** The proposed development is consistent with Goal 2: Ensure that an array of housing choices exist to meet the needs of our current residents and attract new residents to the city and Goal 5: Participate in partnerships to achieve common community development objectives.

**Comprehensive Plan Compliance:** The proposed reuse of this site is consistent with the Comprehensive Plan.

**Zoning Code Compliance:** In compliance.

**Impact on MCDA Budget:** (Check those that apply)

- ☒ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☐ Other financial impact (Explain):

**Living Wage / Business Subsidy:** NA.

**Job Linkage:** Will comply.

**Affirmative Action Compliance:** The project will comply.

**RECOMMENDATION:**

**City Council Recommendation:** The Interim Executive Director recommends that the City Council:

1. Adopt the attached resolution granting preliminary approval to issue up to \$5,900,000 in 501(c)(3) multifamily revenue bonds to assist in financing the housing development at 1900 Central Avenue by Volunteers of America of Minnesota, and
2. Adopt the attached resolution granting the exercise of powers of the Hennepin County Housing and Redevelopment Authority with respect to the project.

**MCDA Board Recommendation:**

1. Adopt the attached resolution granting the exercise of powers of the Hennepin County Housing and Redevelopment Authority with respect to the project.

**Summary publication of the resolutions is requested.**

**PROPERTY INFORMATION**

The development site at 1900 - 1918 Central Avenue N.E. is a 38,000 square foot tax-forfeit site owned by Hennepin County. It is located on the northwest corner of Central Avenue and 19<sup>th</sup> Avenue N.E. The intersection is a retail/commercial node and there is a variety of retail goods and services within three blocks north and south of the intersection. There are a variety of restaurants in the area as well as a Walgreen's drugstore, discount retailers, library, police station, and other housing projects. Bus service extends along Central Avenue connecting the area conveniently with downtown and other areas of the Twin Cities.

In 2001 the County received a Department of Transportation Economic Development Grant to cleanup the 1900 portion of the site which involved demolition of a building that originally housed a plating company. The MCDA owned the adjacent three lots located at 1910, 1914 and 1918 Central Avenue N.E. (formerly "Eich Motors property") for five years. In early 2001 the MCDA and Hennepin County entered a Memorandum of Understanding (MOU) covering, among other matters, the manner in which the MCDA will reconvey the MCDA properties to the County for environmental cleanup purposes and the County and MCDA agree to jointly consult and confer regarding the sale of the properties. The term of the MOU was from March 15, 2001 through June 30, 2002. At this time the environmental cleanup work has been completed and the MCDA and Hennepin County have entered into Amendment #1 to the MOU extending the term until December 31, 2002.

## **BACKGROUND**

The MCDA and Hennepin County jointly issued a Request for Proposals in the fall of 1997. Three responses were received from Summit Environmental (company headquarters), New Hope Ministries (church), and Accessible Resources (accessible housing with commercial). Summit Environmental was selected by staff and the community, but they ultimately withdrew due to cost and time constraints.

Subsequently, Silver Creek Development submitted a proposal to build a 100 unit market rate apartment building with some commercial and underground parking for the entire block fronting Central Avenue from 19<sup>th</sup> to 20<sup>th</sup>. The MCDA provided a six month exclusive development rights to Silver Creek Development, however, the developer was unable to close the gap and withdrew the proposal early in 2001.

Finally, the Volunteers of America of Minnesota submitted a preliminary proposal to the community and to the MCDA for 66 units of senior housing and 17,000 square feet of ground floor commercial. The proposal also encompassed using all of the Central Avenue block from 19<sup>th</sup> to 20<sup>th</sup>. In June, 2001, the MCDA informed VOA of Minnesota that the MCDA would not consider other developments for this site until the organization had the opportunity to fully develop their proposal.

The VOA of Minnesota participated in numerous community forums in which they shared their mission, programming and development proposal. They requested official neighborhood approval to request NRP Affordable Housing Reserve funds to support their the building of a senior apartment complex with commercial and retail space on the ground floor. The Holland Neighborhood Improvement Association (HNIA) supported and sponsored the request for \$700,000 and because the community discussion gained such widespread interest, the Windom Park's NRP committee agreed to help as co-sponsor of this proposal.

In February, 2002, the VOA of Minnesota notified NRP, the MCDA, and Holland Neighborhood Improvement Area of some changes in the proposed development. It was determined that it was not economically feasible to acquire 1920, 1926 or 1928 Central Avenue and, therefore, these three privately-owned properties were being dropped from the development site area. As a result, the development was redesigned

as a four-story, mixed-use project including 51 units of housing for senior citizens and approximately 7,000 square feet of commercial/retail space. In April, 2002, the project was awarded \$624,000 of NRP Affordable Housing Reserve funds.

As mentioned earlier in the report, the MCDA and Hennepin County entered a MOU in early 2001. One component of the MOU was that the County and MCDA agree to jointly consult and confer regarding the sale of the properties. The term of the MOU was from March 15, 2001 through June 30, 2002; it was agreed that if there is not a signed redevelopment agreement by that date then the County shall market and/or sell the development properties without consultation with the MCDA. Amendment One to the MOU has now been agreed to and entered by both parties. The term runs through December 31, 2002.

### **INFORMATION ABOUT APPLICANT**

The borrower will be VOA - 1900, LLC. This is a Minnesota single asset limited liability company. The sole member is Volunteers of America of Minnesota, a qualified 501(c)(3) non profit organization.

Volunteers of America of Minnesota is a Minnesota nonprofit and a chartered affiliate of Volunteers of America, Inc. which is one of the largest developers of affordable housing in the nation. VOA of Minnesota is one of the oldest non-profit organizations in Minnesota responding to major social issues since 1896. Their services include congregate dining and home delivered meals, home health care, homemaker and chore services, senior citizen centers, senior day programming, legal and protective services and volunteer programs for seniors.

### **PROPOSED DEVELOPMENT**

The Volunteers of America of Minnesota, a qualified 501(c)(3) non-profit organization, proposes to develop a seniors-only independent apartment building consisting of 51 apartment units, 70 underground and surface parking spaces and approximately 7,000 square feet of retail commercial space (located on the ground floor). The proposed building will be 84,732 sq. ft. and have four floors with one level of below ground parking.

The ground floor of the project will front Central Avenue and will be rented for retail and commercial use. The Eastside Food Cooperative is interested in opening a natural foods grocery store in the project and its inclusion in the proposed project has helped gain its overwhelming approval from the community. The community has stated its strong support for a member owned, locally operated, natural foods cooperative grocery store on Central Avenue.

The second through fourth floors of the development will be housing units. There will be 9 one-bedroom units, 18 one-bedroom units with dens, and 24 two-bedroom units.

Appliances include a refrigerator, stove, microwave, dishwasher and disposal. Eleven units (20%) will be affordable to people with incomes at or below 50% of the area median income. The unit sizes and proposed rents are as follows:

	<u>BEDROOM MIX</u>	<u>UNIT SIZE</u>	<u>PROPOSED RENT</u>
	Market:		
2	One bedroom units	697 sq. ft.	\$820
15	One bedrooms with den	886 sq. ft.	\$925
23	Two bedroom units	935 sq. ft.	\$980
	Affordable:		
7	One bedroom units	697 sq. ft.	\$620
3	One bedrooms with den	886 sq. ft.	\$740
1	Two bedroom	935 sq. ft.	\$860

The development fills a need for the segment of the senior population that wants to leave its current housing, but not the community. Based on the developer's market research, it is expected that senior residents living nearby will relocate to the project. VOA's commitment to residents will be to extend to them, on a fully voluntary basis, access to a comprehensive set of community-based services and supports.

## **PROPOSED FINANCING**

The total development cost is estimated to be \$6,450,492. The proposed financing sources include 501(c)(3) housing revenue bonds, tax increment financing, NRP funds and involvement by the ALFL-CIO Housing Initiative Trust.

In April, 2002 the developer was awarded \$624,000 of NRP Affordable Housing Reserve funds. The developer is requesting that the City issue 501(c)(3) housing revenue bonds and requesting pay-as-you-go tax increment financing to help pay for the affordable housing component of the project. The proposed borrower of the bonds will be VOA - 1900, LLC, a Minnesota single asset limited liability company, the sole member of which is Volunteers of America of Minnesota, a qualified 501(c)(3) non-profit organization. The estimated sources and uses are as follows:

### USES:

#### Acquisition:

Down Payment	\$ 25,000
Assurance Fees	7,500
Closing Costs	905
Construction Costs	4,752,665

SAC/WAC Charges	73,335
Tenant Improvements	140,000
Architectural & Engineering	182,400
Soil Test, Surveys, Phase I, Appraisal, Market and Traffic Studies	39,000
Legal	169,000
Letter of Credit Fees	147,500
Other Financing Fees	177,500
Developer Fees	243,599
Construction Contingency	49,371
Construction Period Interest	180,000
Bond Capitalized Interest	30,000
Interest Rate Cap	37,400
Common Area Furnishings/Decorating	55,000
Start-up Replacement Reserve	12,750
Setting up Mgmt Office	25,000
Rating Agency	12,000
FNMA Underwriting Expense	5,600
Closing Costs & Title Policy	28,466
Marketing	51,000
Architectural Review Report	5,500
TOTAL	\$6,450,492

**SOURCES:**

FNMA Mortgage Loan (Series A Bonds)	\$4,400,000
Subordinated Series B Bonds	900,000
City NRP	624,000
AFL-CIO Housing Investment Trust	526,492
TOTAL	\$6,450,492*

\* The developer is requesting pay-as-you-go tax increment financing to help pay for the affordable housing component of the project. The project financing listed above is supported in part by a TIF "pay-as-you-go" note in an annual amount of approximately \$70,000 for 25 years and a total amount of approximately \$808,000 for the project development. The proposed project qualifies as a Housing Tax Increment Financing District under State Statutes.

As stated earlier in this report, 1900 Central Avenue is owned by Hennepin County. Hennepin County staff proposes to convey the property to the developer for \$258,405. The proposed payment terms are the payment of \$33,405 at closing and the remaining \$225,000 balance will be repaid at 6.5% interest rate over a ten-year term as follows:

- Interest-only payments for the first five years. The annual payment will be approximately \$15,450.

- Principal and interest payment during the last five years. The annual debt service payment would be approximately \$52,828.56.

In July, 2002, Hennepin County staff notified VOA of Minnesota that they are prepared to present to County Commissioners various actions designed to assist in the successful completion of this project, including conveyance of the land with payment over a ten- year period.

**BOND INFORMATION:**

VOA - 1900, LLC, has submitted an application to the City for up to \$5,900,000 in 501 (c)(3) bonds. \$4,400,000 of this total will be Series A senior bonds secured with FNMA mortgage backed securities fully guaranteed by the Volunteers of America of Minnesota. The bonds will be rated "Aaa" by Moody's Investors Service. \$900,000 will be Series B subordinated bonds that will be initially secured by an irrevocable Letter of Credit from Wells Fargo Bank. The bonds will be non rated and will be sold to either an institutional buyer or to sophisticated buyers meeting certain net worth and income thresholds. Following construction and upon project stabilization (90% project occupancy for 90 consecutive days), the Series B bonds will be secured only by a second mortgage.

The AFL/CIO has two investment arms that have participated in local housing development projects in the Minnesota and Wisconsin area. One of the investment arms is the AFL/CIO Housing Investment Trust. The proposed participation of the Housing Trust will be their purchase of up to four years of certain FNMA securities. By using the FNMA securities to securitize the tax-exempt bonds, the 1900 Central project will benefit from a lower interest rate on the bonds. The proposed purchase will result in \$526,492 of proceeds to the development of the project.

**HRB ENTITLEMENT:** Not applicable (501 (c)(3) bonds).

**BOND COUNSEL:** Leonard Street & Deinard.

**UNDERWRITER:** Marshall Group.

**COUNCIL MEMBER INFORMED:** Yes, Ward 3.

**RECOMMENDATION:**

**City Council Recommendation:** The Interim Executive Director recommends that the City Council:

1. Adopt the attached resolution granting preliminary approval to issue up to \$5,900,000 in 501 (c)(3) multifamily revenue bonds to assist in financing the

housing development at 1900 Central by Volunteers of America of Minnesota,  
and

2. Adopt the attached resolution granting the exercise of powers of the Hennepin County Housing and Redevelopment Authority with respect to the project.

**MCDA Board Recommendation:**

1. Adopt the attached resolution granting the exercise of powers of the Hennepin County Housing and Redevelopment Authority with respect to the project.

**Summary publication of the resolutions is requested.**

This report was prepared by Donna Wiemann. For more information, call 612-673-5257.

10-17-02DW 19<sup>th</sup> CENTRAL PROJECT ANALYSIS AUTHORIZATION/Housing Dev/MF/Wiemann folder



**Approving the undertaking of a project within the City of Minneapolis by the Hennepin County Housing and Redevelopment Authority pursuant to Minnesota Statutes, Section 469.005.**

Whereas, Volunteers of America, a 501(c)(3) organization (the “Owner”) proposes to construct a facility containing approximately 51 residential rental units for low and moderate income persons and families and approximately 7,000 square feet of commercial/retail space located at 1900 Central Avenue in the City of Minneapolis (the “Project”); and

Whereas, the Project will constitute a housing development project under Minnesota Statutes, Section 469.001 through 469.047 (the “Act”); and

Whereas, the Owner has requested that the City issue housing revenue bonds under Minnesota Statutes, Chapter 462C to finance the acquisition, construction and equipping of the Project and that the City and the Minneapolis Community Development Agency (the “Agency”) approve a tax increment financing district which includes the Project to finance a portion of the costs project costs; and

Whereas, the Hennepin County Housing and Redevelopment Authority (the “County Authority”) proposes to exercise its powers under the Act to cooperate with the City and the MCDA with respect to the development of the Project; and

Whereas, on the date hereof the City and the MCDA have jointly conducted a public hearing regarding the exercise by the County Authority of its powers under the act with respect to the Project for which at least 10, but not more than 30, day’s notice was duly published in a newspaper of general circulation in the City;

Now, Therefore, Be It Resolved By the City Council of the City of Minneapolis that the City declares that there is a need for the County Authority to exercise its powers under the Act with respect to the Project, for purposes of Minnesota Statutes, Section 469.005.

Be it further resolved that this Resolution shall become effective upon its adoption, approval and publication.

**Approving a Housing Finance Program for a multifamily housing development pursuant to Minnesota Statutes, Chapter 462C.**

Whereas, pursuant to Minnesota Statutes, Chapter 462C, as amended (the “Act”) and Sections 422.10 through 422.190 of Title 16 of the Minneapolis Code of Ordinances, the City of Minneapolis, Minnesota (the “Issuer”) is authorized to carry out programs for the financing of multifamily housing which is affordable to persons of low and moderate income; and

Whereas, Volunteers of America, a 501(c)(3) organization (the “Owner”) has proposed that the Issuer undertake a multifamily development pursuant to the Act and a Multifamily Housing Development Program (the “Program”) to finance the acquisition, construction and equipping by Owner, of a facility containing approximately 51 residential rental units for low and moderate income persons and families and approximately 7,000 square feet of commercial/retail space located at 1900 Central Avenue in the City of Minneapolis (the “Project”) and to issue up to \$5,900,000 of multifamily housing revenue bonds (the “Bonds”) to finance the Program; and

Whereas, the Issuer has conducted a public hearing regarding the Program for which fifteen day’s notice was duly published in a newspaper of general circulation in the City of Minneapolis; and

Whereas, a copy of the Program was provided to the Metropolitan Council at or prior to the time notice of the public hearing was published; and

Now, Therefore, Be It Resolved By the City Council of the City of Minneapolis:

1. That the Program is hereby approved in all respects for purposes of the Act.
2. Be it further resolved, that the Executive Director of the MCDA or his designee is hereby authorized and directed to take such actions as may be necessary or convenient to carry out the Program.

3. Be it further resolved, that the issuance of revenue bonds pursuant to the Program shall be subject to final approval by the Issuer of the terms and conditions thereof. The approval of the Program shall not constitute an irrevocable commitment on the part of the Issuer to issue the Bonds.

This Resolution shall become effective upon its adoption, approval and publication.

## **PROGRAM TO FINANCE A MULTIFAMILY HOUSING DEVELOPMENT**

Pursuant to Minnesota Statutes, Chapter 462C, as amended (the “Act”) and Section 422.10 through 422.190 of Title 16 of the Minneapolis Code of Ordinances, the City of Minneapolis (the “Issuer”) is authorized to develop and administer programs to finance the acquisition and construction or rehabilitation of multifamily housing developments under the circumstances and within the limitations set forth in the Act. Minnesota Statutes, Section 462C.07 provides that such programs for multifamily housing developments may be financed by revenue bonds issued by the Issuer.

The Issuer has received a proposal from Volunteers of America (the “Owner”) that it approve a program providing for the financing of the acquisition, construction and equipping of an approximately 51-unit residential rental apartment facility, with approximately 7,000 square feet of commercial/retail space on the first floor (the “Project”), to be located at 1900 Central Avenue in the City of Minneapolis, by the Owner or an entity formed by the Owner. The acquisition, construction and equipping of the Project is to be funded through the issuance by the Issuer of up to \$5,900,000 of multifamily housing revenue bonds in one or more series (the “Bonds”). The Owner will own and operate the entire Project as a rental project for low and moderate income persons and families and will hold at least 20% of the units for persons with incomes not greater than 50% of median income for the Minneapolis/Saint Paul Metropolitan Area. The Bonds will be revenue bonds of the Issuer payable solely from amounts pledged to the payment thereof pursuant to the indenture and a loan agreement or a financing agreement between the Issuer and the Owner.

Section A. Program For Financing the Project. It is proposed that the Issuer establish this Program (the “Program”) to provide financing for acquisition, construction and equipping of the Project at a cost and upon such other terms and conditions as are set forth herein and as may be agreed upon in writing between the Issuer, the initial purchaser of the Bonds and the Owner. The Issuer expects to issue the Bonds as soon as the terms have been agreed upon by the Issuer, the Owner and the initial purchaser. The proceeds of the Bonds will be loaned to the Owner to finance the acquisition, construction and equipping of the Project, to fund required reserves and to pay the costs of issuing the Bonds. A trustee will be appointed by the Issuer to monitor the payment of principal and interest on the Bonds.

It is anticipated that the Bonds will have a maturity of up to forty-five (45) years and will bear interest at the rate not greater than 7.00% per annum; however, the Bonds will be priced to the market at the time of issuance.

Section B. Local Contributions To The Program. The Owner will pay certain administrative costs of the Program from Bond proceeds and revenues generated by the Project. Neither the Issuer nor the MCDA will hire additional staff for the administration of this Program. Pursuant to separate agreements, the MCDA may make available to the project certain tax increment.

Section C. Standards and Requirements Relating to the Financing of the Project. The following standards and requirements shall apply with respect to the operation of the Project by the Owner:

(1) Substantially all of the proceeds of the sale of the Bonds will be applied to the acquisition, construction and equipping of the Project, payment of costs of issuance and to the funding of appropriate reserves. The proceeds will be made available to the Owner pursuant to the terms of the documentation for the Bonds, which will include certain covenants to be made by the Owner to the Issuer regarding the use of proceeds and the character and use of the Project.

(2) The Owner, and any subsequent owner of the Project, will not arbitrarily reject an application from a proposed tenant because of race, color, creed, religion, ancestry, national origin, sex, including sexual harassment, affectional preference, disability, age, marital status, or status with regard to public assistance or familial status.

(3) At least 20% of the Housing Units will be held for occupancy by individuals with gross incomes not in excess of 50% of median family income in order to comply with housing policies of the Issuer. It is estimated that rents for the Housing Units will range from approximately \$620 for a one-bedroom unit to \$980 for a 2 bedroom unit.

Subsection D. Evidence of Compliance. The Issuer may require from the Owner at or before the issuance of the Bonds, evidence satisfactory to the Issuer of the ability and intention of the Owner to complete the construction of the Project, and evidence satisfactory to the Issuer of compliance with the standards and requirements for the financing established by the Issuer, and in connection therewith, the Issuer or its representatives may inspect the relevant books and records of the Owner in order to confirm such ability, intention and compliance. In addition, the Issuer may periodically require certification from either the Owner or such other person deemed necessary concerning compliance with various aspects of this Program.

Subsection E. Issuance of Bonds. To finance the Program authorized by this Section the Issuer may by resolution authorize, issue and sell its revenue bonds in an aggregate principal amount of approximately \$5,900,000. The Bonds shall be issued pursuant to Section 462C.07, Subdivision 1 of the Act. The Bonds are expected to be issued in 2002.

Subsection F. Severability. The provisions of this Program are severable and if any of its provisions, sentences, clauses or paragraphs shall be held unconstitutional, contrary to statute, exceeding the authority of the Issuer or otherwise illegal or inoperative by any court of competent jurisdiction, the decision of such court shall not affect or impair any of the remaining provisions.

Subsection G. Amendment. The Issuer shall not amend this Program, while Bonds authorized hereby are outstanding, to the detriment of the holders of such Bonds.

Subsection H. Volume Cap. None of the state ceiling for private activity bonds, pursuant to Section 146 of the Internal Revenue Code of 1986, as amended, and Chapter 474A of Minnesota Statutes is necessary or has been obtained with respect to the Bonds.